FDIC State Profile

Summer 2005

Connecticut

Employment has changed little this year; transformation to a "service" economy continues.

- Through first quarter 2005, manufacturing employment rose slightly, construction employment was steady, and service employment was narrowly mixed. This lack of growth during a national economic upswing is a concern as employment now is only slightly higher than at the beginning of the 1990s. No other state in the country has had such stagnation in employment (See Chart 1).

- Throughout New England, as in most of the country, the manufacturing sector continues to shrink in terms of employment. As of first quarter 2005, Connecticut's manufacturing sector was slightly less than two-thirds of the size it was in early 1990, representing a loss of 105,400 jobs. This decline, while steep in comparison with other sectors, was similar to most other New England states, except New Hampshire and Vermont where declines were less.

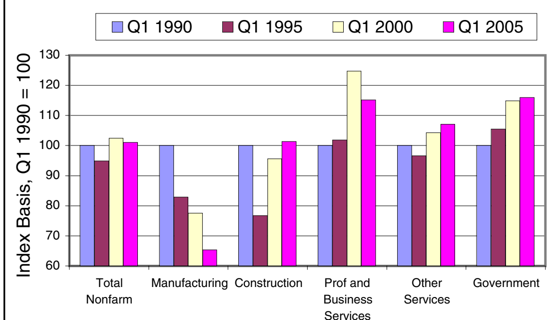
- Perhaps of even greater concern has been the slowness of growth within services. Professional and business services grew significantly only during the 1995 to 2000 period, and even those gains were reversed by two-fifths during the ensuing five years. The 15 percent rise in this sector since 1990 is the least in New England.

Personal income per capita remains high in Connecticut.

- Connecticut residents still have the highest personal income per capita in the country, a position that the state has enjoyed historically. In 2004, growth in personal income per capita also accelerated, placing Connecticut 16th *fastest* in the country, up from the third *slowest* in 2003. In 2003 (the latest data available), the **Bridgeport-Stamford-Norwalk** metropolitan area had the highest personal income per capita of all metropolitan areas in the U.S.

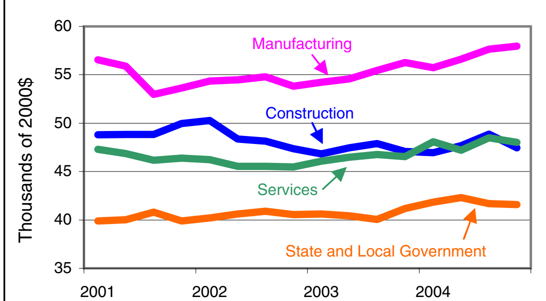
- The 2001 recession resulted in reduced real wages and salaries for Connecticut's workers in manufacturing and construction and, to a lesser extent, in services (See Chart 2). Over the past two years, real wages and salaries in all sectors, other than construction, have improved as the economy strengthened.

Chart 1: Growth in Service and Government Jobs Offset Large Decline in Manufacturing



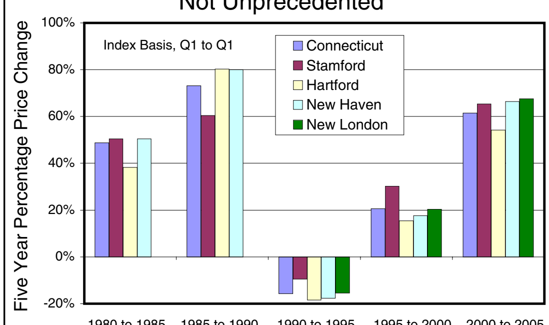
Sources: Bureau of Labor Statistics, Haver Analytics

Chart 2: Wages per Employee Have Recovered in Manufacturing from the Recession of 2001



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Haver Analytics

Chart 3: House Price Appreciation Is Strong But Not Unprecedented



Source: OFHEO, Haver Analytics

House price appreciation remains significant in Connecticut.

- During the past five years, housing prices have risen an impressive 57 percent. However, the cyclical nature of the housing market is clearly shown in the changing price performance over the past 25 years (See Chart 3). The recent robust rate of price appreciation may be challenged by rising mortgage rates in the future.

- All four metropolitan areas enjoyed strong price appreciation in the past year, in line with the rest of southern New England (See Map 1). A recent study by the FDIC identified 55 "boom" markets nationwide including the **Norwich-New London** metropolitan area, outlined in red on the map.[1]

- Continued housing price appreciation likely will be constrained by an increase in supply. Housing permits jumped 16 percent last year in Connecticut from the 2003 level to a six-year high. For the most part, these new houses are at the high end, as developers must build and sell expensive homes to recoup the high land acquisition costs.

Connecticut's insured institutions report lower residential loan delinquencies than other lenders.

- Loan quality overall has improved since the New England economy began to recover late in 1992 and into 1993. Delinquent residential (1–4 family) loans in Connecticut's insured institutions remain near historic lows and were less than 1 percent as of first quarter 2005 (See Chart 4).

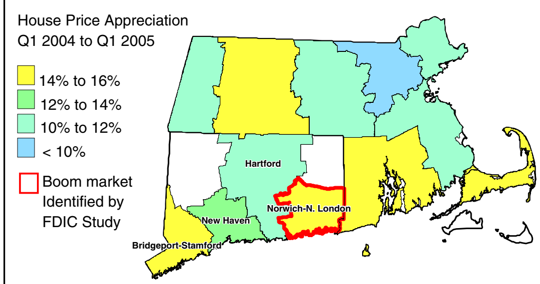
- Residential loans issued by the Department of Veterans Affairs (VA) and the Federal Housing Administration (FHA) nationally have not exhibited the improvement in loan quality which Connecticut's insured institutions have shown. VA loans remain near past-due levels reported in early 1991, while FHA past-due loans reflect increasing past-due levels. The national delinquency level of the relatively new subprime loans is also well above Connecticut's delinquency rates.

Earnings decline as noninterest income falls but net interest margins begin to rebound.

- Connecticut's community institutions[2] experienced an 8-basis point reduction in net earnings year-over-year as of first quarter 2005, since noninterest income declined as service charges on deposit accounts and gains on loan sales declined (See Table 1). Gains on the sale of securities also declined after supporting earnings throughout 2004.

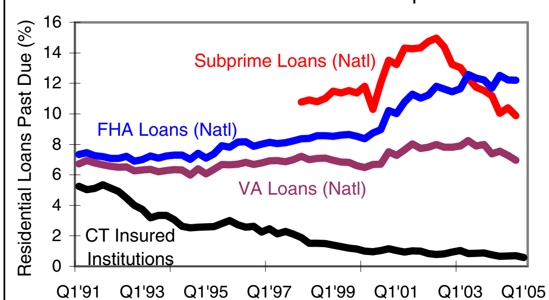
- Community institutions reported an improvement in net interest margins in first quarter 2005 as interest rate increases have had a positive effect on asset yields. Funding costs also rose but less rapidly than asset yields.

Map 1: House Prices in All of Connecticut's Metros Have Seen Double-Digit 1-Year Increases



Source: OFHEO, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005

Chart 4: Insured Institutions Report Lower Residential Real Estate Loan Delinquencies



Note: National data seasonally adjusted.
Sources: FDIC, Mortgage Bankers Association, Haver Analytics

Table 1: Earnings Hampered by Declines in Noninterest Income as Margins Show Improvement

Percentage of Average Assets	First Quarter 2004	First Quarter 2005	Basis Point Change
Net Interest Income	3.40	3.44	0.04
Noninterest Income	0.70	0.55	-0.15
Noninterest Expense	2.80	2.78	-0.02
Provision Expense	0.06	0.06	0.00
Security Gains & Losses	0.11	0.08	-0.03
Income Taxes	0.44	0.40	-0.04
Net Income (ROA)	0.91	0.83	-0.08
Net Interest Margin (NIM)	3.65	3.70	0.05

Note: Aggregate data for institutions with assets <$1 billion. Excludes specialty institutions and de novos.
Source: FDIC

[1] Cynthia Angell and Norman Williams, FDIC FYI Revisited: "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which *inflation-adjusted* home prices rose by at least 30 percent during the 2001-2004 period.
[2] Insured institutions with assets of less than $1 billion, excluding institutions less than three years old and specialty institutions.

Connecticut at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	-0.5%	-1.3%	-0.8%	0.0%
Manufacturing (12%)	0.7%	-3.0%	-6.0%	-7.3%	-1.0%
Other (non-manufacturing) Goods-Producing (4%)	7.5%	4.1%	-6.8%	0.4%	1.1%
Private Service-Producing (69%)	1.6%	0.1%	-0.4%	-0.4%	0.0%
Government (15%)	-0.3%	-2.3%	-0.4%	3.2%	0.9%
Unemployment Rate (% of labor force)	4.8	5.2	5.5	3.7	2.6

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	5.2%	0.9%	-1.0%	7.0%
Single-Family Home Permits	-6.0%	25.6%	-23.7%	25.7%	-20.9%
Multifamily Building Permits	-0.2%	63.7%	56.2%	-70.0%	42.6%
Existing Home Sales	0.9%	2.2%	-7.4%	7.1%	2.2%
Home Price Index	13.4%	9.8%	9.1%	8.8%	9.3%
Bankruptcy Filings per 1000 people (quarterly level)	0.83	0.84	0.88	0.83	0.90

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	57	63	66	68	70
Total Assets (in millions)	62,510	58,317	52,832	51,574	49,189
New Institutions (# < 3 years)	3	6	7	9	9
Subchapter S Institutions	1	1	1	1	1

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.66	0.84	1.05	1.02	1.20
ALLL/Total Loans (median %)	1.16	1.15	1.22	1.16	1.21
ALLL/Noncurrent Loans (median multiple)	3.00	2.57	2.93	2.77	2.43
Net Loan Losses / Total Loans (median %)	0.01	0.01	0.02	0.02	0.01

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	10.49	9.46	9.28	9.41	9.88
Return on Assets (median %)	0.89	0.87	0.89	0.89	0.87
Pretax Return on Assets (median %)	1.44	1.27	1.28	1.30	1.30
Net Interest Margin (median %)	3.94	3.84	3.89	3.91	3.91
Yield on Earning Assets (median %)	6.38	6.34	6.55	6.75	7.05
Cost of Funding Earning Assets (median %)	2.41	2.45	2.65	2.84	3.12
Provisions to Avg. Assets (median %)	0.08	0.08	0.08	0.08	0.07
Noninterest Income to Avg. Assets (median %)	0.55	0.48	0.49	0.53	0.50
Overhead to Avg. Assets (median %)	2.99	3.06	2.96	2.94	2.91

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	65.4	59.6	58.4	60.2	62.3
Noncore Funding to Assets (median %)	20.1	16.8	14.1	17.1	14.6
Long-term Assets to Assets (median %, call filers)	20.3	22.7	22.9	21.0	18.3
Brokered Deposits (number of institutions)	13	12	6	6	5
Brokered Deposits to Assets (median % for those above)	1.1	0.6	0.2	0.1	2.6

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	38.2	42.5	46.6	43.1	39.1
Commercial Real Estate	163.4	150.1	123.4	112.1	114.4
Construction & Development	42.0	32.8	27.0	23.0	19.6
Multifamily Residential Real Estate	7.8	3.5	5.1	4.5	4.8
Nonresidential Real Estate	107.0	101.4	91.6	81.8	76.0
Residential Real Estate	367.6	358.5	384.1	376.6	382.6
Consumer	5.5	8.4	11.4	14.6	18.1
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Hartford-West Hartford-East Hartford, CT	32	25,884	< $250 million	24 (42.1%)
Bridgeport-Stamford-Norwalk, CT	25	23,106	$250 million to $1 billion	25 (43.9%)
New Haven-Milford, CT	24	15,866	$1 billion to $10 billion	6 (10.5%)
Norwich-New London, CT	13	3,935	> $10 billion	2 (3.5%)